accomplishment to achieve that and still put in more money into the system.

That being said, my point is, even though in the aggregate it was minus $35 million. AT&T was not a net saver. AT&T net was a positive number. More to the point, though, you can't just say, "Well, AT&T whatever or business residents," because that relevant question is the residents portion of my business. And the residents portion of my business had a net increase.

And that's not to fault anybody. That's just the fault of the numbers in terms of how the process worked, and it's not counterintuitive if you say in the most aggregate IXC is zero, you don't expect everyone to be at zero. I don't think so.

And all I'm saying to you is if I looked at my resident's business, I was not a net zero. I was a net positive. But that, in and of itself, is not the key point, either, even though I'm saying to you I had, you know, significant increase in terms of the residential market. That's not the relevant point.

CHAIRMAN KENNARD: Well, it may be the relative point from our perspective, Mr. Lubin, because those residential consumers happen to be the most vulnerable consumers in America. And we have no assurances to this day, that those access charge reductions were passed through on a proportionate basis, so that those residential consumer have enjoyed the benefits of these access charge reductions.

Maybe the Commission made a mistake in deregulating your marketplace and relinquishing control over the basic scheduled customers, because from everything I've heard, those customers are still vulnerable today per your acknowledgment a few minutes ago.

MR. LUBIN: When I said per my acknowledgment where I said that the residential market net had an increase, I'm not talking about the prices that I have set in the market. What I was talking about was the net access savings versus USF obligation. That was where there was a net increase. It had nothing to do with my rate settings.

And the reason why that occurred is because the restructure of access disproportionately put the access benefit into the business side of the equation. And I'm not saying that's bad or that's good. All I'm saying is that was the fact of the situation.

Why did that occur is because there was an originating, terminating rate differential. The terminating rate went down significantly more than the originating rate. And business has proportionately more terminating rate -- minutes.

So, I realize this is a very controversial issue, and I realize everybody's working trying to do the best they can, but I am saying that as a result of the restructure and the combination of everything else on January of 1998, the residential -- it has nothing to do with my prices. And we can debate that and discuss that. But I'm saying the net USF access obligation in the residential market that I have went up. And all that is because of the nature of the restructure that caused terminating access minutes to go down in terms of the unit rate a lot more than residents.

CHAIRMAN KENNARD: Okay, well, can you tell me whether that was a good thing or a bad thing for those residential consumers?

MR. LUBIN: All I could say to you is that the net expense in terms of -- that I incur on behalf of the residential customers net went up. Right now, I'm not making a judgment whether that was a good thing or a bad thing. I'm just stating a fact is that because of the nature of the restructure, even though that the IXE in industry in aggregate had a net savings based on the last analysis that I saw from the Commission.

All I'm saying is if you looked at the residential, from what I see, our net expense was not down, but it was up. And I'm also saying is, whether that's a good thing or a bad thing, we can debate. All I'm saying is it was the net result of the combination of a lot of different facts.

CHAIRMAN KENNARD: Okay.

COMMISSIONER NESS: If we could get back to a point that Mr. Brown was making where we have explicit -- where on the Federal level, we have explicit funding for universal service. The point was, what should be reduced? What correspondingly should be reduced?

MR. BROWN: Well, in interstate service as you increase funding, for example, using the numbers I was using before. If we have a $2.8 billion fund which is the interstate share of the 4.4, 1.125 of that would be reflected in interstate access reductions.

COMMISSIONER NESS: Okay. So, in other words to the extent that there's an increase in explicit funding --

MR. BROWN: Yes.,

COMMISSIONER NESS: From the interstate jurisdiction.

MR. BROWN: Yes.

COMMISSIONER NESS: That should result in a concomitant reduction in the interstate access charges. Is that right?

MR. BROWN: Yes.

COMMISSIONER NESS: Does everyone on the panel agree with that? Is there anyone who disagrees with that concept? Mr. Wendling?

MR. WENDLING: Under the variable benchmark and the variable support method for certain states where their internal intrastate revenues are inadequate to support the super high costs of their high areas, the -- those extra dollars which would be, in our opinion, necessary to keep rates reasonably comparable, would be an offset to intrastate side.

COMMISSIONER NESS: But basically, the concept is that if you pay in the interstate explicitly, that in order to avoid double counting, you would be reducing the interstate access unless you wanted to shift more burden to intrastate -- not burden, but benefit to the intrastate side.

MR. WENDLING: Yes.

COMMISSIONER NESS: But under a normal set of circumstances, you make explicit here, and then you reduce by a concomitant amount and then you're even as far as the funding's concerned. Is that right?

MR. WENDLING: Under the 25/75, yes. Every dollar of every increased funding would be offset by a reduction in interstate access.

COMMISSIONER NESS: And it would also be logical than if we were to on the state side make explicit funding for universal service on the state intrastate side. That that would result in a concomitant reduction of implicit subsidies or should result in a concomitant reduction of the implicit subsidies on the intrastate side.

Does everyone agree with that, or does anyone have a problem with that? Would that be logical? Again to avoid double counting?

MR. WENDLING: Or windfall as we call it.

COMMISSIONER NESS: Or windfall. Okay.

MS. BALDWIN: The only problem is that the rates are being readjusted if there's an elastic service for which the price is reduced and it's stimulating demand, that may need to be fed into the equation.

COMMISSIONER NESS: That's a good one.

MR. WELLER: Commissioner, I think what we've suggested is really sort of a cascading approach that's similar to what the Commission's already use with the SLC's and pixie charges.

In other words, a company gets money from the new fund, first to the extent that it's getting money from the existing high cost fund today. It simply replaces that. There's money left over from that, which there should be. It applies to reductions in interstate access. Interstate access gets driven down to some objective rate that the Commission would set.

And then, when you reach that level if you have additional funds left over and in the high cost states that some of these gentlemen are worried about, we would try to set the benchmarks so that that does happen. The additional money would be flowed through the Part 36 process to the states, where I fully agree there would be a requirement that they wouldn't use that money on the state side that's sent there to make offsetting reductions in contributing state rates today.

CHAIRMAN KENNARD: Let me just follow up on that for a moment. How much money do you estimate is in implicit universal support today?

MR. WELLER: On the interstate side, what I've estimated is $6.3 billion. That's a fairly simple calculation, taking the reported revenue for switched access leaving the SLC's aside, and subtracting an estimated cost-based rate with a average amount of contribution at eight tenths of a cent.

And that's a fairly robust number if you change eight tenths to seven tenths or nine tenths. It's not going to change dramatically.

So, that is the estate of what's in interstate access today. Now, a certain portion of that is the recovery from the schools and library fund. If there were another recover mechanism for that fund, and I know there's been discussion of that recently, than the number would come down correspondingly to five point something depending on --

CHAIRMAN KENNARD: But that number doesn't include the explicit interstate support like DEM weighting and long term support in the high cost fund. Correct?

MR. WELLER: The explicit interstate support to non-rural companies, as Mr. Sichter said earlier today, just over $200 million, about $217 million.

So, if you put these pieces together, you have five point something billion dollars to get down to eight tenths of a cent for interstate access, plus $217 million to maintain the current level of high cost funding to non-rural companies, plus whatever it is that as a policy judgment, you decide represents a reasonable balance, the money that you should send to the high cost and/or low revenue based states to use for reducing intrastate subsidies.

CHAIRMAN KENNARD: So, on top of that number, there's still some amount that would have to go to defray intrastate costs, as well. Correct?

MR. WELLER: Yes, depending on the amount that you choose to sent there. I believe in Mr. Shiffman's plan that would be in a range of maybe $600 to $800 million, if you want to take his estimate as a guide.

CHAIRMAN KENNARD: Okay. Let's hold on Joel's estimate for a minute and add up the costs. You said $6.3 billion in implicit support plus the $600 million. That's $6.9 billion. If we were to recover that amount -- and plus, of course, than you have the explicit support, the high cost fund, DEM weighting and LTS. If we were -- how much in addition is that?

MR. WELLER: Again, it depends on what you do with the schools and libraries.

CHAIRMAN KENNARD: Put that aside for a moment.

MR. WELLER: If we put that aside, than we're starting from about 5.2 instead of 6.3, if we assume just over a billion dollars. So, than add Mr. Shiffman's $600 or $700 million and gets us up to about six. Add $200 million or so for the current high cost funding, and you're back to about 6.2, 6.3 percent. I'm sorry $6.3 billion.

And I said earlier, a fund of that size could be financed with a uniform percentage surcharge on state and interstate revenues of about three percent, just over three percent.

CHAIRMAN KENNARD: About three percent?

MR. WELLER: Yes.

CHAIRMAN KENNARD: So, you'd be talking about an end user charge of approximately three percent?

MR. WELLER: Yes. So, if you think about it this way, someone with an average amount of toll, would actually slightly benefit. They'd start out by breaking even, but then there'd be stimulation as was suggested earlier. So, actually, about half of what -- there would be significant stimulation, I think, that would produce an additional benefit.

If you think of a worse case scenario where somebody makes no toll and doesn't benefit at all, take someone with an $18 average residents rate, add a SLC, you get up to $21.50. Take three percent of that, you're talking about 60 some cents. That's the worse that anyone could be hurt by this program. And most people would benefit.

CHAIRMAN KENNARD: Okay. Now, if we were to take that 60 cent amount, have you done any calculations on what the effect of competitive bidding would be on that amount of support, to the extent which it might go done? Tough question.

MR. WELLER: No, I haven't. In fact, to my mind the whole point of competitive bidding is that we don't try to do calculations. We let the bidders do the calculations. So, no. My presumption is that competitive bidding, and I think it's demonstrable logically, will give us the best -- the right number. Some places that may be more, and others it may be less. But what we can say is that they'll be competitive pressure over time to the extent that it can be driven down.

CHAIRMAN KENNARD: Okay. Thank you.

COMMISSIONER NESS: Just following up on your calculation, are you assuming that everything that is in access except the actual cost of access -- of interstate access, goes to subsidize universal service, or might there be included within that maybe some other funds slushing around? Maybe it goes to the corporate bottom line. Maybe it goes to other investments that GTE has abroad, whatever it might otherwise be.

MR. WELLER: I'll go back to the picture. And as I said before, you have to either imagine a leak in the system or a completely different cost level to say that that support isn't universal service funding. All right? So, there are no major flows in or out of the system that aren't depicted on this chart. So, I've accounted for all of the local business. So, there are major leaks, sinks or sources in the system that I haven't accounted for.

And as far as the cost level is concerned, as I said earlier, you know, if you assume a low enough cost level, I mean, I could make the Ford Foundation show a profit. But I think you have to start with a reasonable assumption that if you've arrived at this rate level by your price cap system, that's the mode of regulation you're employing. By the way, it's not dependent on embedded costs. You've been off of an embedded cost system for the last seven or eight years now, as far as access is concerned.

So, either that's the right starting point or it's not. But you have to make a heroic assumption that it's not in order to say that the margins above the normal margin that are in access are not contributing to universal service.

And I think if you look at this chart, it seems fairly obvious where the money's going.

COMMISSIONER NESS: I don't mean to be heroic, but I think one could make a very easy argument that when we went to price caps, we just switched over without really probing and testing what was in those numbers. And we were told, certainly, by the local exchange carriers who were subject to price cap, "Don't worry about it, because it's price capped. It doesn't matter what our costs are. It doesn't matter how much we spend for the infrastructure. We're going to the invest -- we're going to do all the rest of the stuff. The price cap keeps it down, and you don't have to worry about how much profit is included within that level."

So, I'm not sure that I necessarily, therefore, reach your conclusion that everything that would be included on that side solely goes to support universal service within the system.

I don't know. Mr. Lubin, do you have a viewpoint on this? I can't imagine that you do, but perhaps you do.

MR. LUBIN: Yeah. I'll be brief because I just repeat what I've said is that from our point of view, we think that, in particular, there are some local companies that have rates of return and the interstate jurisdiction of 20 percent in excess. There are various audits that go on that try to search the rate base and whatever can identify it.

There's all sorts of questions. And that's why the perception is if we took all of the access out and drove it to the costs -- Dennis's number was .8 cent, that it has to be zero sum, and it has to go somewhere else. My point of view is challenging the point, does it have to go somewhere else?

Again, if you take a study area as the level of aggregation of the subsidy, we conclude from the analysis we've seen, it's not the case. But I mean, that's the issue that will be debated.

I do have one question if I could just pose it to Dennis. I'm just curious just so -- because I was trying to follow the numbers of the 5.2, the .6 and the .2, which added to roughly $6 billion or $6.2 billion. Does that include the existing high cost subsidy of about, let's say, 1.7 minus the $200 million? So, say, 1.5 for the rural guide? I was just trying to understand where that is.

MR. WELLER: No. We've been talking exclusively, I think, generally, in this session about support for non-rural companies.

MR. LUBIN: So, these are non-rural companies. Okay. Thank you.

MS. JOHNSON: I have a question for Mr. Lubin, and it goes to the paragraph 381 issue. The issue being whether universal service dollars should be used to reduce interstate access, or at least that's how some people interpreted 381. And maybe the FCC staff can help me here a bit.

But looking at the principles, one could interpret the principles to mean, well, at least for the $220 million that is currently recoverable, we will continue to let universal service dollars flow to that. But whatever's left over will go to reduce interstate access.

Now, my question to you is, you have articulated that access dollars aren't used for universal service. That the revenues cover the costs. So, I know in a general way, we should always try to make sure that rates are as low as possible in looking at the market, of course. But to the extent that we're in a universal service docket and we're dealing with universal service issues, and you tell me that those dollars -- those access dollars have nothing to do with local rates low, why should I be concerned? Should that be a priority for using the dollars in that way?

MR. LUBIN: Meaning the $220 million or what's included in access?

MS. JOHNSON: Both.

MR. LUBIN: Okay. It's a complicated issue, but before I answer, I just want to take 20 seconds and thank the Commissioners and the Joint Board for having a session like this in terms of having the expertise on the panel to engage and listen to your questions and respond.

I, personally, found it very helpful. I, personally, learned things that I didn't know before, in particular, on Joel Shiffman's presentation, because it was always unclear. And I'm going to relate it to your question, is that it was always unclear to me how you get to argue that you want a bigger fund and it shouldn't be used to lower access. I mean, I just didn't understand that.

I don't agree with it, but at least now, for the first time, I appreciate and understand the logic. And I'm one for trying to understand the logic of what's going on. And what I did not understand before, is that they're looking at it from the point of view of comparability. And so, that doesn't mean that it's a zero sum, meaning, "Hey, figure out the access and lower access prices." They're saying that there's certain states or certain areas for which there needs to be more subsidy to lower the existing local rate.

I didn't understand that before. And so, we can debate whether the law, you know, wants that to occur. But at least I, for the first time, understand how they get to argue, create more money, don't use this to lower access, use it to lower somebody's local rate. I mean, it never dawned on me before. At least now I understand that. I mean, I don't agree with the point, but at least I understand the logic, whereas before I thought it was just being arbitrary. Now, I see that they're saying that, you know, there are certain local rates that aren't comparable and need to be lower.

MS. JOHNSON: And from a universal service standpoint, if the goal is to keep local rates low or comparable, you can follow that argument. You still may not agree, but --

MR. LUBIN: Right, right. But again, to me, I always thought the Telecommunications Act was, "Okay. We've got the subsidies somewhere." Identify them and make them explicit to keep rates kind of where they were, which I always deemed as affordable rates. I mean, they were -- they exist. You have some lifeline. You have penetration 94 percent, and you have other ways to get it up. So, anyway, I don't want to belabor it, I just thought, at least I understood now the logic.

But now I go to the heart of your question. The $220 million or the 110 for which large companies get --

okay? So, the 200 is all non-rural. Of that 220, roughly 110 goes to the very largest companies. There's about, you know, RBOC, GTE and SNET cover about 90 percent of the lines, and they get the money.

And from our point of view if revenues for local are covering costs, and you're at the study area level, our point of view was they shouldn't get the money. There's no need for the money. The money is simply going to the bottom line by virtue of looking at the interstate rates of return for GTE and other companies who are getting the money.

MS. JOHNSON: Why should you get the money?

MR. LUBIN: Okay.

MS. JOHNSON: Because we're not -- a lot of states, we aren't looking at their rate of return, just like we're aren't looking at yours. So, if the money isn't going -- I mean, why should you get the money? How do we make the policy decision that AT&T should get the money?

MR. LUBIN: I wish --

MS. JOHNSON: Because typically you're not passing it through.

MR. LUBIN: Right. Well, I mean, that --

MS. JOHNSON: But maybe you are.

MR. LUBIN: Right, right. The question here is, you know, and -- I mean, I understand the dilemma that the regulator has. The regulator has, "Why should take billions of dollars out of access and trust the middleman or middlewomen to flow it through?"

And certainly, that is the dilemma that I hear -- the paradox I hear, because I keep coming back to the point that the reason you take these access down is the consumer is going to benefit, be it high cost. That I say, there's $110 million too much. Or be it that there's, you know, six billion, 10 billion, 12 billion. Pick the number have the investigation. From our point of view, that gets lowered and that flows back into the customer's hands.

Now, one of the things I take it that people would like is, it should uniformly flow into all customers hands. And unfortunately, that is an issue.

My answer earlier was I sincerely believe that business and residents are getting their fair share. That doesn't necessarily mean that every customer is getting their fair share as maybe you wish to define it. And that is because there are some customers whose cost or margin is extremely thin. And there are other customers whose margin is bigger.

And so what you compete away is you compete away margin. You compete away us trying to drive costs out of our businesses, such as our overheard, our sales, our marketing, our administration. We try to drive those up. But I'm hard pressed to drive out a USF assessment. I'm hard pressed to drive out a pixie charge unless there was local competition. And if there was local competition, I still can't drive out the USF line item, but maybe I have the opportunity to drive out the pixie.

Anyway, so I'm taking probably more time than is warranted here. Thank you.

MS. JOHNSON: Thank you.

MR. WOOD: Consumer information is what lubricates the market period. There are a number of areas that are not passing this through. And I wonder if there's a role -- I know you all have access to a lot of resources as to what people are charging on tariffs. But -- and we're trying to figure this out in Texas, too, is -- you know, in a market place, which the long distance market is arguably there in a competitive marketplace, consumer information is what really lubricates the market.

And you know, there's still people in Texas who think there's only one phone company. As Mr. Lubin's employer, it would be nice to let them know that there are companies who don't choose to pass these through. We choose to internalize that in a minutes of use rate or in a flat structure that looks different than what they're charging.

And the truth shall set you free philosophy leads me to think maybe rather than, you know, beating these guys over the handbags and shoes, we ought to just out there and tell the public, "Hey, here's a 1-800 number company who doesn't charge all this stuff." I mean, that's what I would like to do. And I think in Texas, we might talk about doing that sometime later this month.

But there are a lot of little companies out there. One of them found me one rainy night when I was mad at my carrier, who's not on this panel, but -- and I moved. And I asked them every three months, "Are you going add surcharges?" They said, "Federal excise tax, state sales, 911 fee and that's it." And as long as they kind of hold to that pledge, that's who I'm staying with.

But I mean, I think that's an effort that maybe the consumer affairs division of the FCC can help us with is getting the word out to who these -- you know, make available information out there as to what these people, and the customer can decide if they want to do that or not.

CHAIRMAN KENNARD: I think you make an excellent point, Pat. Mr. Lubin argues passionately for the fact that all of the consumers that he serves are getting their fair share, but those consumers don't know that. Indeed, we don't even know that. And unless consumers get that information, one way or another either from us or from you in your billing disclosure, they'll have no confidence that they'll have that information. And that is, information is power. That's what they need to exercise the choice that

Chairman Wood is talking about.

Commissioner Furchtgott-Roth?

COMMISSIONER FURCHTGOTT-ROTH: Chairman Wood, with all due respect, there are millions of Americans who switch their long distance carrier every year without the benefit of a Federal regulator or a state regulator telling them who to go change to. American consumers are the brightest, best informed consumers in the world. And I think they do an awfully good job of sorting through this.

If they want to go to a carrier that embeds new Federal taxes in the rate, they'll go that one. If they want to go to one that's going to make it an explicit line item, they'll do that. If they want to go to one that's going to make it a line item somewhere else, they figure it out. But I am completely unconvinced given the rate at which consumers churn in the market in one of the most competitive markets in the United States, that there's any shortage of customer information out there. I find it, frankly -- I find it unfathomable that we could even have a discussion about this at this stage.

But that's probably just a reflection of my concern about an earlier statement of possibly going back to regulating rates of long distance carriers. I haven't quite recovered from that one yet.

CHAIRMAN KENNARD: Fasten your seatbelt.

MS. JOHNSON: Let me make one comment in response to the Commissioner's statement. I agree that the consumers -- American consumers are some of the most informed. Often times, they have the 1-800 number for the Florida Public Service Commission, and they call us to tell us how confusing this all is for them, how they don't understand the pixie, how they don't understand what's happening, how they do, in fact, need some help in sorting all of these issues out. That's not to say that they aren't intelligent beings, but this is a very complicated process.

And often times, there's a lot of churn, because there's a lot of slamming. Now, that's another issue we need to deal with. And I say that somewhat joking, but somewhat seriously, too. I've been on the road show for several months meeting with consumers, consumers that we regulate, and the number one issue is customer confusion.

So, to the extent that we can come up with policies, and we've been working with our industries to -- so that they can help develop policies, not necessarily Commission policies and Commission procedures to make sure that the users understand their bills, understand the issues, understand the increases and the savings that they may achieve. But it is a difficult process and I deal with it every day.

CHAIRMAN KENNARD: Commissioner Tristani? Oh.

Ms. Hogerty?

MS. HOGERTY: I had a question about the access reductions and the 381 question. If my memory serves me, the universal service docket dealt with universal service. There was a separate docket that dealt with access restructure. And there were discussions today, and I know -- I think Commissioner Ness if anybody disagreed that the fund should be used to lower access. Well, I recall that Dr. Cooper, before he left, stated that it should not be used to reduce access.

And the question that keeps occurring to me is, how -- if the purpose of the fund is to maintain affordable rates in high cost areas, how does a general reduction in interstate access target affordable local rates, those rates that have defined as universal service rates in high cost areas? Those reductions will go to -- I don't know where, wherever you decide to put them. But how can that be consistent with the statute when the purpose is to support affordable basic local rates in certain designated high cost areas?

MR. SICHTER: I would respond first. I'll tell you the answer is that, as I said in my opening comments, we don't need new revenue to support USF in this country. We need to move from the implicit subsidy structure we have to an explicit subsidy. And that's all that's occurring.

You're moving the subsidy dollars out of the access charges where they create all kinds of distortions in the marketplace and eventually become competitively vulnerable to a competitively neutral universal service fund. One that is both explicit and portable and available to CLEC as well as the ILEC's

MS. HOGERTY: And what cost are you moving out of access and placing on the end user are you proposing? What cost?

MR. SICHTER: Well, we take a little bit different tact than, I think, others. In sorting through this issue, there's really two things going on. One is, the subsidies to support universal services as a result of historic rate making practices, as well as --

MS. HOGERTY: I'm just asking, what particular costs are you moving from the access to the end user?

MR. SICHTER: I'm trying to get to that. I'm trying to differentiate the costs that were put into access to explicitly support universal service. And those are primarily the non-traffic sensitive costs, as opposed to the above cost rates for access that are really a function, I believe, of the difference between forward looking costs and embedded costs.

MS. HOGERTY: So, you are saying, essentially, the loop?

MR. SICHTER: Yes. The loop, the non-traffic --

MS. HOGERTY: The carrier common line?

MR. SICHTER: The carrier common line, and we would like to see the pix moved into universal service for, I think, obvious reasons.

MS. HOGERTY: Okay. When a person provides -- when a company provides toll, is the loop part of the plan necessary to provide that service to the customer?

MR. SICHTER: Oh, absolutely. It's necessary. It's not an issue of whether or not it's used or it's necessary. It's a matter of how you recover those costs.

MS. HOGERTY: If you were to provide long distance service on a stand alone basis, could you eliminate the cost of the loop?

MR. SICHTER: No, absolutely not. And again, we're not talking about an issue of whether it's used or useful or necessary for the provision of a toll service. We are talking about a pricing issue on how those non-traffic sensitive costs did recover.

The issue, if I may be permitted, that we're dealing with today, is a recovery of those costs through a usage sensitive element, somewhat on the interstate side, but particularly, on the state side. And we have this phenomena, and I can relate the numbers for Sprint local companies. They're not dissimilar from other companies, as